Supreme Court, U.S.
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IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1997

BAKER HUGHES INCORPORATED, HUGHES TOOL COMPANY, INC. and CAL DIVE INTERNATIONAL, INC., *et al*

Petitioners,

vs.

JIM ARNOLD CORPORATION, EARL E. ENNIS and JAMES F. ARNOLD

Respondents.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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August 1997

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QUESTION PRESENTED

Is a claim seeking recovery for patent infringement under 35 U.S.C. § 271 insufficient to confer federal jurisdiction because of the possibility that the claim might fail to state a cause of action upon which the pleader can recover?

RULE 29.6 STATEMENT AND PARTIES

Pursuant to Rule 29.6 of the Rules of this Court, Petitioners Baker Hughes Incorporated, Hughes Tool Company, Inc. and Cal Dive International, Inc. have no subsidiaries, other than wholly owned subsidiaries.

The parties to this proceeding are: The Jim Arnold Corporation, Earl E. Ennis, James F. Arnold, Hydrotech Systems, Inc., Arkla, Inc., Diversified Energies, Inc., Minnegasco, Inc., Baker Hughes Incorporated, Hughes Tool Company, Inc., Mohr Corp., Harvey O. Mohr, H.O. Mohr Research & Engineering, Inc., H.O. Mohr & Associates, Inc., Cal Dive International, Inc., Robert Wittman, H.S.I. Acquisition, Inc., Lee R. Larkin, and Andrews & Kurth.

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PETITION FOR WRIT OF CERTIORARI

The petitioners Baker Hughes, Incorporated, Hughes Tool Company, Inc., and Cal Dive International, Inc. respectfully request that this Court grant the petition for writ of certiorari, which seeks review of the Federal Circuit's decision in this case.

OPINIONS BELOW

The opinion of the Federal Circuit (App.A.,pp. A1-A26) is reported at 109 F.3d 1567. The opinion of the District Court is unreported.

JURISDICTION

The judgment of the Court of Appeals for the Federal Circuit was entered on March 21, 1997 (App.A., p.A4). The Court of Appeals denied a timely petition for rehearing on May 22, 1997. The jurisdiction of this court is invoked under 28 U.S.C. § 1254(1).(App. B, p. A29)

STATUTORY PROVISION INVOLVED

35 U.S.C. § 271 provides, in relevant part, that "whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent."

STATEMENT OF THE CASE

A. Basis for Federal Jurisdiction in the District Court

The jurisdiction of the district court was invoked pursuant to 28 U.S.C. § 1338 and 28 U.S.C. § 1441 because the Respondents' complaint contained a claim for patent infringement pursuant to 35 U.S.C. § 271.

B. Proceedings Below

In the allegations in their complaint, Respondents Jim Arnold Corporation, Earl E. Ennis and James F. Arnold (collectively "Respondents") contend that Arnold assigned patents regarding undersea pipeline technology to Petitioners Baker Hughes Incorporated and Hughes Tool Company, Inc. (collectively "Hughes") in 1980 in consideration for the right to receive royalties under those patents. (A537-538.) Respondents claim that because of fraud and other wrongful actions by Petitioners, the contract assigning Respondents' patents "is and has been null and void either on or before 1980." Consequently, Respondents contend that Petitioners have been infringing on Respondents' patents since 1980. (A525.) In support of their claim for patent infringement, Respondents included in their petition a list of the specific patents which they contend that Petitioners have infringed. (A536-537.) Respondents filed suit in Texas state court against Petitioners and twelve other defendants for patent infringement pursuant to 35 U.S.C. § 271, along with a variety of state law claims. (A525.) The case was removed to the United States District Court for the Southern District of Texas pursuant to 28 U.S.C. § 1441 and 28 U.S.C. § 1338. Because Respondents had notice of their claims over eight years before suit was filed, the district court granted Petitioners' motion for summary judgment on the merits and dismissed all of Respondents' claims on September 30, 1994. The district court held that Respondents' state law claims were barred by the applicable Texas statutes of limitations, and the patent infringement claim was dismissed because it was barred by laches. (App. A, p. A5)

Respondents filed an appeal to the Fifth Circuit, which transferred the appeal to the Federal Circuit pursuant to 28

U.S.C. § 1295(a)(1). The Federal Circuit dismissed the appeal for want of jurisdiction on March 21, 1997, and denied Petitioners' timely petition for rehearing on May 22, 1997.

In the opinion issued by the Federal Circuit on March 21, 1997, the court held that federal subject matter jurisdiction is lacking in this case because "the state court complaint fails to present a nonfrivolous allegation of ownership of the patents at issue sufficient to confer jurisdiction on the district court pursuant to 28 U.S.C. § 1338." (App. A, p. A25) The Federal Circuit based its holding on the distinction that this case involves a patent assignment rather than a patent license, because under an assignment, title to the patents passes to the assignee, whereas under a license, the patentee retains title to the patents. (App. A, p.A22) According to the Federal Circuit, Respondents did not have title to the patents prior to a judicial declaration rescinding the assignment. Consequently, the Federal Circuit concluded that Respondents' claim for infringement of those patents was unfounded, and no federal jurisdiction existed. (App.A, p. A23)

REASONS WHY THE PETITION SHOULD BE GRANTED

The petition presents an important issue of federal subject matter jurisdiction concerning the power of federal courts to determine issues relating to a claim of patent infringement under the laws of the United States. Also, the petition presents an important issue of whether the Federal Circuit gave due deference to the case law of the state of Texas because that law in effect confers jurisdiction on the federal courts to decide claims of patent infringement under the circumstances present in this case.

I. The Opinion of the Federal Circuit conflicts with Supreme Court authority

The opinion of the Federal Circuit conflicts with the Supreme Court's prior opinion in *Bell v. Hood*, 327 U.S. 678, 66 S.Ct. 773, 776, 90 L .Ed. 939 (1946). In *Bell*, the plaintiffs brought suit in federal district court to recover damages from agents of the Federal Bureau of Investigation based on allegations that the plaintiffs sustained damages for wrongful imprisonment in violation of their rights under the Fourth and Fifth Amendments. 66 S.Ct. at 774. The district court dismissed the case for lack of federal jurisdiction and the dismissal was affirmed by the Court of Appeals for the Ninth Circuit. The Supreme Court reversed, holding that, "before deciding that there is no jurisdiction, the district court must look to the way the complaint is drawn to see if it is drawn so as to claim a right to recover under the Constitution and laws of the United States." *Id.* at 775. This Court further held that "[w]here the complaint, as here, is so drawn as to seek recovery directly under the Constitution or laws of the United States, the federal court, but for two possible exceptions later noted, must entertain the suit." *Id.* at 776.

The two exceptions allowing dismissal of a suit for want of jurisdiction are (1) where the alleged federal claim "clearly appears to be immaterial and made solely for the purpose of obtaining jurisdiction," and (2) "where such claim is wholly insubstantial and frivolous." *Id.* In this context, a federal claim is insubstantial only if "its unsoundness so clearly results from the previous decisions of this court as to foreclose the subject and leave no room for the inference that the questions sought to be raised can be the subject of controversy." *Hagans v. Levine*, 415 U.S. 528, 94 S.Ct. 1372, 1379, 39 L. Ed. 577 (1974). Justice Jackson stated the rule clearly:

> As frequently happens where the jurisdiction depends on subject matter, the question whether jurisdiction exists has been confused with the question whether the complaint states a cause of action..... *If the complaint raises a federal question, the mere claim confers power to decide that it has.*

Montana-Dakota Utilities Co. v. Northwestern Pub. Serv. Co., 341 U.S. 246, 249, 71 S.Ct. 692, 694, 95 L. Ed. 912 (1951). [emphasis added]

In the instant case, Respondents' intent to maintain a cause of action for patent infringement is clearly stated. Indeed, Respondents' pleading even cites to the patent statute itself, 35 U.S.C. § 271 (A525.) All parties to the appeal initially conceded that jurisdiction was appropriate in the Federal Circuit. Nevertheless, the Federal Circuit, acting on its own, found no jurisdiction. The Federal Circuit reasoned that the Respondents lack title to the patents at issue as a consequence of the assignment, because "[u]ntil ownership is restored in the assignor, there can be no act of infringement by the assignee." (App.A, p. A23). The Federal Circuit applied that rule in this case based upon a misconception that "Texas case law indicates that a party must seek the aid of a court in order to obtain cancellation or rescission of an assignment, thus obtaining reassignment of title." (App.A, p. A25.) However, Texas case law actually provides for unilateral rescission of a contract without aid of a court, which includes obtaining rescission of a patent assignment. The Federal Circuit's opinion simply fails to follow the Texas law that, in this case, confers jurisdiction over this case to the federal courts. Under Texas law, "[b]reach of a contract by one party may give the other party a right to rescind unilaterally and without the

agreement of the breaching party." *Allen v. Allen*, 751 S.W.2d 567, 575 (Tex. App.--Houston [14th Dist.] 1988, writ denied); *Cundiff v. McLean & Miller*, 40 Tex. 368, 371 (Tex. 1874) (same). Likewise, "it is a well established rule of law that where an agreement is mutual and dependent and one party fails to perform his part, the other party may treat the agreement as rescinded." *Ross v. McClelland*, 281 S.W.2d 773, 775 (Tex. Civ. App.--Fort Worth 1955, writ ref'd n.r.e.). Because the assignment agreement in this case explicitly provides that it "shall be construed and interpreted in accordance with the laws of the State of Texas" (A484), Respondents had the unilateral right to rescind the assignment without seeking aid of a court. Accordingly, Respondents' claim for patent infringement on its face states a nonfrivolous claim based on Texas legal principles and the Federal Circuit failed to give due deference to Texas law. The Federal Circuit's opinion may also be read to interpret Texas law as not clearly giving a unilateral right to rescind a contract without the aid of a court. Even under that interpretation, however, the opinion conflicts with this Court's decision in *Bell v. Hood* because federal jurisdiction under such circumstances is also proper. Assuming that the Federal Circuit interpreted Texas law in that manner, the Federal Circuit therefore based it holding of no jurisdiction on the possibility that the Respondents' pleading" might fail "to state a claim for patent infringement upon which the Respondents could recover. This very same reasoning was rejected by this Court in *Bell v. Hood*, because "[j]urisdiction . . . is not defeated . . . by the possibility that the averments might fail to state a cause of action on which petitioners could actually recover. For it is well settled that the failure to state a proper cause of action calls for a judgment on the merits and not for a dismissal for want of jurisdiction." 66 S.Ct. at 776.

While Respondents' complaint for patent infringement is clearly unmeritorious, it is not "frivolous." As Justice

Holmes stated over eighty-four years ago, "the party who brings a suit is the master to decide what law he will rely upon, and therefore does determine whether he will bring a suit 'arising under' the patent or other law of the United States by his declaration or bill." *The Fair v. Kohler Die and Specialty Co.*, 228 U.S. 22, 25, 33 S.Ct. 411, 57 L.Ed. 716 (1913).

II. The Opinion of the Federal Circuit conflicts with previous decisions of the Federal Circuit

The Panel Opinion in this case also conflicts with several previous opinions of the Federal Circuit, *Kunkel v. Topmaster Int'l, Inc.*, 906 F.2d 693 (Fed. Cir. 1990)., *Vink v. Hendrikus Johannes Schijf Rolkan N.V.*, 839 F.2d 676, 679 (Fed. Cir. 1988), and *Air Products & Chemicals, Inc. v. Reichold Chemicals, Inc.*, 755 F.2d 1555 (Fed. Cir), *cert. dismissed*, 473 U.S. 929, 106 S.Ct.22, 87 L. Ed. 2d 700(1985). Contrary to the Panel Opinion in this case that subject matter jurisdiction does not exist because the assignment agreement in issue requires the court to first determine the issue of ownership of the patents, *Kunkel*, *Vink*, and *Air Products* held that it is immaterial to the determination of federal subject matter jurisdiction whether a non-federal issue (such as rescission or ownership of the patents) must be resolved before the federal infringement issue.

In *Kunkel*, 906 F.2d 693, the Plaintiff's complaint contained claims for patent infringement and unfair competition and sought damages based on those claims, an injunction, and a declaration and decree of rescission of a license under the patent that the plaintiff had previously granted to defendants. *Id.* at 694-95. Reversing the district court's decision that subject matter jurisdiction did not exist, the Federal Circuit held that federal jurisdiction existed because the plaintiff had plead all the necessary elements for a patent

infringement claim. *Id.* at 695, 696. Significantly, the Federal Circuit also held that the fact "[t]hat [plaintiffs'] complaint also requests equitable relief in the form of a declaration and decree of rescission of contract cannot impair the federal court's ability to exercise jurisdiction over the action." *Id.* at 696. The reason for that holding was that "merely because 'a question of contract law must be decided prior to reaching the infringement question does not defeat federal subject matter jurisdiction.'" *Id.* at 695. *Kunkel* further held that it is immaterial to the Court's subject matter jurisdiction that a plaintiff's patent infringement claim is pled as an alternative claim conditioned on obtaining the equitable relief of rescission under state law. *Id.* at 696.

The Panel Opinion in this case incorrectly attempted to distinguish *Kunkel* on the grounds that the contract sought to be rescinded in *Kunkel* was a license agreement (which did not purport to transfer ownership of the patents) as opposed to a patent assignment agreement (like that at issue in this case). (*See* App.A, p. A22) However, *Kunkel* cannot be so limited without overruling at least part of that decision. The holding in *Kunkel* makes no distinction between a patent license and a patent assignment. Instead, *Kunkel* explicitly states that its holding applies regardless of the nature of the nonpatent claims or nonpatent relief sought in addition to the patent infringement claim. *See* 906 F.2d at 696-97 & n.1.

In *Vink*, 839 F.2d 676, the plaintiff's complaint requested a declaratory judgment of ownership of a patent based on an assignment, an injunction against patent infringement, and the imposition of a constructive trust in regard to a conflicting assignment of the patent. *Id.* at 677. The district court dismissed the case for lack of subject matter jurisdiction. On appeal, the Federal Circuit held that the factual allegations in the complaint and the relief requested set forth a patent law question sufficient to confer federal jurisdiction. *Id.*

at 678. Although ownership of the patent was disputed, the Federal Circuit held that the determination of ownership of the patent was irrelevant to the jurisdictional inquiry. Specifically, the Federal Circuit stated that merely because "a non-federal issue (ownership of the patent) must be resolved before the federal issue (infringement) is immaterial in determining whether there is federal jurisdiction." *Id.* at 679.

Further, in *Air Products*, 755 F.2d 1559, the plaintiff brought suit to terminate a patent license agreement and for patent infringement. *Id.* at 1560. The district court dismissed the case for lack of subject matter jurisdiction, holding that the primary issue to be resolved was an issue of contract interpretation, not patent infringement. *Id.* at 1561. The Federal Circuit reversed, holding that the presence of a preliminary contract law question does not divest federal subject matter jurisdiction, even if the resolution of that question renders the federal question moot:

> [T]he fact that a question of contract law must be decided prior to reaching the infringement question does not defeat federal subject matter jurisdiction. That resolution of a question of state law may render federal questions moot does not deprive a federal court of subject matter jurisdiction where the plaintiff bases his claim upon, and seeks remedies under, the patent laws . . . .

Id. at 1563-64. Instead, federal subject matter jurisdiction is determined by the allegations in the plaintiff's complaint: "where a non-frivolous complaint states a claim and seeks relief

under the patent laws, exclusive jurisdiction of the federal courts is thereby established." *Id.* at 1564.

While the Panel Opinion in the instant case draws a distinction for jurisdictional purposes between licenses and assignments in regard to infringement actions brought by patentees, *Kunkel*, *Vink*, and *Air Products* draw no such distinction, and *Vink* expressly involves assignments, not licenses. *Vink*, 839 F.2d at 676-77. Moreover, yet another critical aspect of the Panel Opinion directly conflicts with *Kunkel*, *Vink* and *Air Products*. A central basis for the Panel Opinion in this case was that the complaint "fails to represent a nonfrivolous allegation of ownership of the patents" at issue because "the complaint can only be read to say that in order *for the federal district court to reach the patent infringement claim, it must first resolve the ownership interests resulting from the . . . assignments [of the patents]* therein outlined." (App.A, p. A21, p. A15 [emphasis added]). In direct contrast, the Federal Circuit previously held in *Kunkel*, *Vink* and *Air Products* that federal subject matter jurisdiction applies to a complaint alleging a patent infringement claim, even if that claim can be addressed only after addressing issues of rescission, ownership of the patents, or breach of contract, and even if the patent infringement claim may become moot after those other preliminary state law issues are resolved. *See e.g.*, *Kunkel*, 906 F.2d at 695; *Vink*, 839 F.2d at 676; *Air Products*, 755 F.2d at 1559. Consequently, the jurisdictional distinction between assignments and licenses made in the Panel Opinion is in direct conflict with the Federal Circuit's own precedent.

III. Respondents' Petition contained a well-pleaded claim for patent infringement. Consequently, the decision of the Federal Circuit is erroneous

Title 28, Section 1338 jurisdiction extends to those cases in which "a well pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiffs' right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well pleaded claims." *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808, 108 S. Ct. 2166, 100 L. Ed. 2d 811(1988) (citation omitted). Under the well pleaded complaint rule, whether a claim "'arises under' patent law 'must be determined from what necessarily appears in the plaintiffs' statement of his own claim and from the bill or declaration, unaided by anything alleged in anticipation or avoidance of defenses which is thought the defendant may interpose'." *Id.* at 809.

To invoke federal jurisdiction, all that a plaintiff needs to do is plead the elements required by the patent laws for a patent infringement claim. *Exxon Chemical Patents, Inc. v. Lubrizol Corp.*, 935 F.2d 1263, 1265 (Fed. Cir. 1991); *Kunkel*, 906 F.2d at 695; *Vink*, 839 F.2d at 678; *Air Products*, 755 F.2d at 1564. "[T]he elements required by the patent laws for a patent infringement claim" are "plead[ing] ownership of a patent still in force, infringement by defendants," and "request[ing] as relief treble damages and an injunction" under the patent laws. *Kunkel*, 906 F.2d at 695. Respondents' Original Petition satisfied these requirements.

Respondents' Original Petition specifically sets out a claim for patent infringement under 35 U.S.C. § 271 *et seq.*:

> [S]ince the agreements assigning the patent from Plaintiffs to Defendants has [sic] been **null and void** since at least 1980, said Defendants are and have been infringing upon Plaintiffs' patents as enumerated in paragraph 3 [sic; paragraph 41] in direct violation of 35 U.[S].C. [sic] 271 et. seq. since that date."

(A525, [emphasis added]) The Petition thus on its face states a claim for patent infringement. Respondents have alleged a basis for ownership of the Arnold patents in the past and currently, because the assignment of the patents to defendants in Respondents' words "has been null and void since at least 1980." (A526, 525.) Citing a portion of the federal laws pertaining to patents ("35 U.[S].C. § 271"), Respondents also allege that Petitioners have infringed those patents, and Respondents seek relief in the form of an injunction against continued infringement and an award of actual damages or "lost profits", and further seek a trebling of those damages. (A525, 523, 522.) In the words of a previous opinion of the Federal Circuit, "[t]hat is all [Respondents] needed to do to invoke federal jurisdiction." *Kunkel*, 906 F.2d at 695.

Respondents' intent to maintain a cause of action for patent infringement is further evidenced by their inclusion of a list in paragraph 41 of Respondents' Original Petition of the

specific patents which they contend that Petitioners have infringed. (A536-537.) Where a well pleaded complaint states a claim and seeks relief under the patent laws, exclusive jurisdiction of the federal courts is thereby established. *Air Products,* 755 F.2d at 1564. The decision of the Federal Circuit to the contrary in this case should be reversed.

CONCLUSION

For the foregoing reasons, the petition for writ of certiorari should be granted.

DATED this 20th day of August 1997.

Respectfully submitted,

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APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

95-1335-1432

JIM ARNOLD CORPORATION, EARL E. ENNIS, and JAMES F. ARNOLD,

Plaintiffs-Appellants,

v.

HYDROTECH SYSTEMS, INC.,

Defendant-Appellee,

and

ARKLA, INC., DIVERSIFIED ENERGIES, INC., and MINNEGASCO, INC.,

Defendants-Appellees,

and

BAKER HUGHES INCORPORATED and HUGHES TOOL COMPANY,

Defendants-Appellees,

and

MOHR CORP., HARVEY O. MOHR, H.O. MOHR RESEARCH & ENGINEERING, INC., and H.O. MOHR & ASSOCIATES, INC.,

Defendants-Appellees,

and

CAL DIVE INTERNATIONAL, INC.,

Defendant-Appellee,

and

ROBERT WITTMAN and H.S.I. ACQUISITION, INC.,

Defendants-Appellees,

and

LEE R. LARKIN and ANDREWS & KURTH,

Defendants-Appellees.

Joseph W. Walker, Franklin, Mosele, & Walker, P.C., of Houston, Texas, argued for plaintiffs-appellants. With him on the brief was Thomas J. Mosele.

John Wayne Kitchens, Jr., Hughes, Watters & Askanase, L.L.P., of Houston, Texas, argued for defendants-appellees

Hydrotech Systems, Inc., Robert Wittman, and H.S.I. Acquisition, Inc. Counsel on the brief was Rod Hardie.

Joseph L. McEntee, Jones, Day, Reavis & Pogue, of Dallas, Texas, for defendants-appellees Arkla, Inc., Diversified Energies, Inc., and Minnegasco, Inc. Of counsel was Scott W. Burt.

Glenn A. Ballard, Jr., Bracewell & Patterson, L.L.P., of Houston, Texas, argued for defendants-appellees Baker Hughes Incorporated, Hughes Tool Company, Inc., and Cal Dive International, Inc. With him on the brief was John H. Barr, Jr. Of counsel was Ralph E. Kraft, Preis, Kraft &Roy, of Lafayette, Louisiana.

Richard L. Josephson, Baker & Botts, L.L.P., of Houston, Texas, argued for defendants-appellees Lee R. Larkin and Andrews & Kurth. With him on the brief was Stephanie K. Copp.

Appealed from: U.S. District Court for the Southern District of Texas

Judge Hoyt

United States Court of Appeals for the Federal Circuit

95-1335,-1442

JIM ARNOLD CORPORATION, EARL E. ENNIS, AND JAMES F. ARNOLD,

Plaintiffs-Appellants,

v.

HYDROTECH SYSTEMS, INC., ARKLA, INC., DIVERSIFIED ENERGIES, INC., MINNEGASCO, INC., BAKER HUGHES, INCORPORATED, HUGHES TOOL COMPANY, MOHR CORP., HARVEY O. MOHR, H.O. MOHR & ASSOCIATES, INC., CAL DIVE INTERNATIONAL, INC., ROBERT WITTMAN, H.S.I. ACQUISITION, INC., LEE R. LARKIN, AND ANDREWS & KURTH,

Defendants-Appellees.

DECIDED: March 21, 1997

Before PLAGER, Circuit Judge, SKELTON, Senior Circuit Judge, and SCHALL, Circuit Judge.

PLAGER, Circuit Judge.

This case turns on the jurisdictional reach of federal courts when both state-based and federal-based claims are put at issue in a complaint. Plaintiffs appeal from a decision on the merits rendered in favor of all defendants by the United States District Court for the Southern District of Texas. Plaintiffs originally filed their complaint in the district court of Harris County, 11th Judicial District, a Texas state court, against fifteen different defendants, asserting a variety of state-law claims, as well as one for patent infringement. Defendants, asserting their right under 28 U.S.C. § 1441, removed the case to federal court. The federal district court subsequently granted defendants' motions for summary judgment on the merits, holding that the claims were barred either by relevant state statutes of limitations or, in the case of the patent infringement claim, by laches. Plaintiffs took an appeal to the Fifth Circuit, which court denied defendants' motion to dismiss and transferred the appeal to this court.

The merits of the summary judgment were briefed and presented to this court at oral argument. However, at the argument, we raised with counsel the question of whether the case was properly in federal court at all, or whether jurisdiction lay exclusively in state court. We suspended further consideration of the merits pending additional briefing on the question of jurisdiction. The fact that none of the parties raised the issue, or that none of the other courts hearing the matter considered it, is not determinative. Federal courts are courts of defined jurisdiction, and a court must attend to its jurisdiction at all times.

Having now fully considered the additional briefs and the questions thereunder, we conclude, albeit reluctantly, that neither the district court nor this court has jurisdiction over the causes of action pied by plaintiffs. The matter belongs, if it belongs anywhere, in an appropriate state court. The judgment

of the district court is vacated, and the matter remanded to that court with instructions to return the cause to the state court whence it came.

BACKGROUND

Plaintiff James F. Arnold is an inventor. He patented a number of inventions covering devices used in the connection and repair of subsea oil pipelines and offshore platforms. Beginning in 1970 Arnold became involved in a number of agreements that related to these patents, in some of which he was a contracting party, and in some of which he was not but which related to the patents and rights arising under them. The story is somewhat convoluted, but necessary to an understanding of who the parties are and the nature of the dispute between them.

Arnold entered into an employment agreement with Hydrotech Services, Inc. ("HTS") on March 6, 1970. Under this agreement, Arnold agreed to assign his rights to technology he developed during the term of his employment. This agreement excluded any invention developed before March 6, 1970, however, and specifically excluded certain issued patents.

Subsequently, on August 1, 1973, Arnold entered into an agreement with Hydrotech International, Inc. ("HTI"), a newly-formed holding company and the successor in interest to HTS. Pursuant to this agreement, Arnold assigned all his rights in any "invention, innovation or improvement" developed during the term of the agreement to HTI, except for certain patents (the same ones that were excluded from the HTS agreement) and patent applications arising before Arnold's employment with HTS. In return, HTI covenanted, *inter alia,* to pay a royalty to Arnold on all tools sold by HTI that were either invented by Arnold or covered by his patents. Later, on December 27, 1973, Arnold and HTI entered into two

assignment agreements in which Arnold assigned certain patents to HTI, including two of the patents that had been excluded from the earlier agreements.

Thereafter, in 1980, Hughes Tool Company ("Hughes Tool") informed Arnold that it desired to purchase HTI. That same year, Hughes Tool effected this purchase through its wholly-owned subsidiary, Hughes Undersea Couplings, Inc. ("Hughes Undersea"). In this acquisition, Hughes Undersea received all of HTI's assets, including the patents that HTI had acquired from Arnold. On October 20, 1980, Arnold entered into an agreement with Hughes Undersea ("the 1980 agreement") which was designed to supersede other agreements, including the agreement entered into on August 1, 1973 and the two assignment agreements entered into on December 27, 1973. The 1980 agreement stated that Arnold agreed to an assignment (presumably from HTI) of the various patents to Hughes Undersea.

The 1980 agreement contained a provision allowing either party (Arnold or Hughes Undersea) to assign the agreement to another party. This provision further provided that Hughes Undersea could assign any of the patents or patent applications covered by the agreement to a third party, provided that it notified Arnold of such assignment within ten days. Pursuant to this provision, on December 20, 1984, Hughes Tool (acting through Hughes Undersea) assigned its rights in particular patents and patent applications to Cal-Dive International, Inc. ("Cal-Dive"); Arnold was notified of the assignment on December 21, 1984. Cal-Dive later assigned all of its rights to H.S.I. Acquisition, Inc. (which later changed its name to Hydrotech Systems, Inc.), and made the necessary notification to Arnold on August 18, 1988.

Finally, in October 1988, Arnold sold his corporation, the Jim Arnold Corporation, to Earl E. Ennis ("Ennis"). In connection with this sale, Arnold assigned to Ennis all of his rights in the patents developed by him and any rights he had in agreements with HTI, Hughes Tool, Cal-Dive, and H.S.I. Acquisition, Inc./Hydrotech Systems.

Thus, as of the date of the Texas state court action in August of 1993, as a result of the chain of transactions and assignments outlined above, Hydrotech Systems, Inc. apparently owned the relevant patents, while any interests that remained with Arnold following the 1973 and 1980 agreements, along with his rights under the various agreements, apparently were owned by Ennis.

In the following discussion, the plaintiffs will be designated collectively as "Arnold," and referred to in the singular; the defendants may sometimes be referred to as "Hughes." (The defendants not named above are not involved in the claims regarding the 1980 agreement, but are in the suit based on other theories. Our disposition regarding jurisdiction applies to all the claims raised, and therefore we need not differentiate among these defendants.)

As noted, plaintiff Arnold in 1993 filed its complaint in a Texas state court, asserting both state and federal claims. Defendants removed the case to the United States District Court for the Southern District of Texas under the provisions of 28 U.S.C. § 1441, on the theory that the case was one which arose in whole or in part under the patent laws of the United States, and therefore original and exclusive jurisdiction lay in the federal district court pursuant to 28 U.S.C. § 1338. The record does not indicate that plaintiff opposed the transfer. Plaintiff did oppose the judgment eventually awarded by the District Court, however. That court granted summary judgment

in favor of all defendants. All counts except the patent infringement count were ruled in favor of the several defendants on the basis of various Texas statutes of limitations. The patent count was ruled in favor of the defendants on the ground of laches.

Plaintiff appealed from that judgment to the Fifth Circuit. Since the presumed basis for federal court jurisdiction was § 1338, the appeal properly lay in this court. The Fifth Circuit declined defendants' motion to dismiss the appeal, and transferred the matter to this court.

DISCUSSION

A.

Before we may reach the merits of a case we must, as a threshold issue, attend to our jurisdiction. This case is here on removal, at the trial level, from the state court in which plaintiff placed it. Unless expressly provided otherwise by statute, a civil action brought in a state court may be removed to a federal district court, but only if a federal district court could have exercised original jurisdiction over the cause. 28 U.S.C. § 1441 (1994). *See. e.g.*, *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987) ("Only state-court actions that originally could have been filed in federal court may be removed to federal court by the defendant."). The question we must answer, therefore, is whether federal subject-matter jurisdiction would exist over this case had it originally been filed in federal court. If the answer is yes, then removal was proper, and the matter is before us on the merits; if the answer is no, then removal was improper and federal courts are without jurisdiction to determine the cause.

28 U.S.C. § 1338 states that "[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents. . . . Such jurisdiction shall

be exclusive of the courts of the states . . . ." 28 U.S.C. § 1338(a) (1994). Whether the case originally could have been heard under § 1338 depends on whether the plaintiffs, in a well-pleaded complaint, state a claim which arises under the patent law. A claim arises under the patent law if patent law creates the cause of action or is a necessary element of one of the well-pleaded claims. *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808-09 (1988). This is not a case in which patent law is a necessary element of some other well-pleaded claim. Thus, if federal jurisdiction exists, it is because patent law created a cause of action.

The seemingly simple phrase "arising under" has engendered litigation and argument for at least a century. *Schwarzkopf Dev. Corp. v. Ti-Coating*, 800 F.2d 240, 243, 231 USPQ 47, 49 (Fed. Cir. 1986). Justice Holmes stated the rule to be that "[a] suit arises under the law that creates the cause of action." *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916). Though this may not be a self-evident prescription, case law gives us considerable guidance into what the phrase means in the context of a case such as this.

The right of a patentee to a remedy for patent infringement is created by the patent statute, which provides that "[a] patentee shall have remedy by civil action for infringement of his patent." 35 U.SC § 281 (1994). The term "patentee" includes "successors in title to the patent" 35 USC § 100(d) (1994). To invoke the jurisdiction of a federal court under §1338, it is necessary that plaintiff allege facts that demonstrate that he, and not the defendant, owns the patent rights on which the infringement suit is premised. Furthermore, this allegation of ownership must have a plausible foundation. Federal jurisdiction cannot lie based on allegations that are frivolous or insubstantial *See Cervantez v Bexar County Civil Service Comm'n*, 99 F3d 730, 733 (5th Cir 1996).

Thus, if plaintiff cannot in good faith allege such facts because, absent judicial intervention to change the situation, under the terms of a contract or deed of assignment the rights at issue are held by the defendant, federal court is not the place to seek that initial judicial intervention.

It may seem strange at first blush that the question of whether a patent is valid and infringed ordinarily is one for federal courts, while the question of who owns the patent rights and on what terms typically is a question exclusively for state courts. Yet that long has been the law. It is well settled that if the patentee pleads a cause of action based on rights created by a contract, or on the common law of torts, the case is not one "arising under" the patent laws. *See. e.g., New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473 (1912) (state court has jurisdiction of suit for specific performance of contract to assign patent); *Geneva Furniture Mfg. Co. v. S. Karpen Bros.*, 238 U.S. 254 (1915) (upholding federal jurisdiction over part of a bill charging contributory infringement; rest of bill not sustainable because based on contract); *Becher v. Contoure Labs., Inc.*, 279 U.S. 388 (1929) (explaining why state court has jurisdiction over bill to compel assignment of a patent tortiously secured by patentee). *See also Schwarzkopf Development Corp. v. Ti-Coating, Inc.*, 800 F.2d 240, 231 USPQ 47 (Fed. Cir. 1986); *Beghin-Say Int'l, Inc. v. Ole-Bendt Rasmussen*, 733 F.2d 1564, 221 USPQ 1123 (Fed. Cir. 1984). *See also Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544, 1552, 3 USPQ2d 1241, 124647 (Fed. Cir. 1987), *vacated on jurisdictional grounds and remanded*, 486 U.S. 800, 7 USPQ2d 1109 (1988).

Plaintiff Arnold contends that his complaint to the state court clearly showed that he had assigned all right, title, and interest in the patents at issue to Hughes; that he had no

ownership interest in the patents on which to sue unless and until the state-provided remedy of rescission was granted; and that his causes of action thus lay exclusively in state court. Defendants, in support of the District Court's decree in their favor, argue that plaintiff's original petition contains a well-pleaded claim for patent infringement under 35 U.S.C. § 271, and that the need to decide a question of contract law prior to reaching the infringement question does not defeat federal subject-matter jurisdiction.

For the reasons we shall explain, we reluctantly come to the conclusion that plaintiff is correct, and that federal jurisdiction does not lie over the causes of action pleaded by Arnold in his original petition filed in the state court of Harris County. We say reluctantly because judicial economy would suggest that plaintiff has had his day in court with regard to an initial determination of his claims at the trial level, and that the correctness of that determination is now a matter of appellate review of its merits. Nor does plaintiff have much in the way of equities in his favor. Although defendants brought this problem upon themselves by initiating the removal of the case to federal court, plaintiff apparently did nothing to resist the removal, and did not even bother to raise the jurisdiction issue here on appeal. Though plaintiff thus may have no claim on our sympathies, and though the result of a trial in state court may replicate the result reached by the federal district court, considerations of judicial economy cannot trump a clear rule of law, particularly one that goes to the very power of the court to decide the case.

B.

Plaintiff's complaint filed in the district court of Harris County, Texas, denominated "Plaintiffs' Original Petition," consists of twenty numbered parts, containing 99 numbered paragraphs. Fifteen different defendants, corporate and

individual, were named in Part I. In Part II, headed "Jurisdiction and Venue," the jurisdictional paragraph (paragraph 20) states that "This court [the Harris County court] has jurisdiction pursuant to Article 17.042 of the Tex. Civ. Prac. & Rem. Code Ann. because is [sic] involves contracts with a Texas resident to be performed in part in this state and torts committed in part in this state." The complaint then recites a series of background facts, identifies the patents which were the subject of the several agreements described above, and alleges, *inter alia*, the failures of the defendants to perform according to the terms of the agreements.

The complaint then pleads, with respect to the named defendants, causes of action for various state-based claims. Part IV, entitled "Fraud, Misrepresentation, and Fraudulent Concealment," contains paragraphs alleging that defendants deliberately made false representations of material fact regarding actual sales and other aspects of the agreements on which plaintiff relied; Part V, entitled "Breach of Fiduciary Duties," contains paragraphs alleging that defendants, as a result of the assignments, had a confidential or fiduciary relationship with plaintiff, which by their conduct was breached; Part VI, entitled "Breach of the Duty of Good Faith and Fair Dealing," alleges that as an alternative to the fiduciary obligations, defendants, by acquiring an interest in plaintiff's patents and inventions, had a duty of good faith and fair dealing, again breached by their failure to properly account under the assignments; Part VII, entitled "Tortious Interference with Contractual or Business Relations," alleges that defendants, knowing of the royalty obligations contained in the agreements, conspired together to encourage breaches of those obligations; Part VIII (mislabeled VII), entitled "Civil Conspiracy," alleges that defendants conspired to prevent plaintiff from receiving the royalties due under the licensing agreements; Part IX, entitled "Constructive Fraud," alleges that

the conduct as described in the prior paragraphs constitutes constructive fraud; and Part X, entitled "Breach of Contract," contains paragraphs alleging that defendants' actions in non-payment of royalties due plaintiff constitutes breach of the assignment contracts.

Following the substantive allegations, there is a part entitled "Rescission" (Part XI). In this section plaintiff, based on the wrongs previously alleged, seeks, *inter alia*, "a judgment rescinding the contract assigning patents to Defendants and requiring all Defendants to reassign all right, title, and interest to said patents to Plaintiffs." (Paragraph 73.) Plaintiff states that "since the contract between Plaintiffs and Defendants has been void since on or before 1980, Plaintiffs seek recision [sic] of the contracts assigning patents by Hughes Tool Company to Cal-Dive, Inc., (Diversified Energies, Inc.) to HSI Acquisition, Inc., as Defendants had no interest to assign." (Paragraph 74.) Plaintiff further seeks judgment from the court requiring defendants to reassign all right, title and interest in the patents. (Paragraph 75.)

This section is followed by Part XII, entitled "Patent Infringement." In numbered paragraph 76, plaintiff alleges that "[a]lteratively [sic], since the agreements assigning the patents from Plaintiffs to Defendants has [sic] been null and void since at least 1980, said Defendants are and have been infringing upon Plaintiffs' patents . . . in direction violation of 35 U.W.C. [sic] 271, et seq. since that date." In two subsequent. paragraphs plaintiff alleges that the infringement was willful, and that, unless restrained, it would continue.

The remainder of the complaint contains claims for accounting (Part XIII) and damages (Parts XIV-XVI), including damages for "actual damages," "mental anguish damages," and "exemplary damages" arising from the various contractual

breaches and other alleged wrongs. In one of the paragraphs on "actual damages" plaintiff states: "[a]lternatively, in the event this Court grants Plaintiffs' requested recision [sic] of the 1980 assignment agreement or other agreements, Plaintiffs will be entitled to recover for Defendants' continuing acts of patent infringement." (Paragraph 87.) A later paragraph asks for treble damages for willful infringement "[I]n the event this Court grants Plaintiffs' requested recision [sic] of the 1980 assignment contract . . . ." (Paragraph 94.) After other miscellaneous paragraphs, the complaint ends with a prayer for all damages due as permitted by law.

Viewed in its entirety, the complaint leaves no doubt that plaintiff's suit is premised on a state-law based set of claims arising out of an alleged breach of an assignment and royalty agreement. Plaintiff's repeated reference to the need for rescission of the assignment agreement, and the desired legal consequences that would flow from a decree of rescission, point inexorably to the fact that his claim is a claim for a contract wrong. Inclusion in the complaint of the statement "the agreements assigning the patents from Plaintiffs to Defendants has [sic] been null and void since at least 1980" does not change the clear gravamen of the complaint. At best that statement is a conclusion of law based on plaintiff's assumption about what the facts will prove; it falls far short of the necessary well-pleaded allegation of ownership of patent rights, the very rights which are the subject of the dispute.

When fully analyzed, the complaint can only be read to say that in order for the federal district court to reach the patent infringement claim, it first must resolve the ownership interests resulting from the long and convoluted chain of transactions and assignments therein outlined. In addition, the court would have to determine whether, as a matter of contract remedy, to rescind the assignments based on Arnold's various claims of

contract wrongs. Assuming that the district court decided that the relevant assignments should be rescinded and that Arnold should be declared the owner of the patents, only then could it reach the patent infringement issue.

C.

Defendants argue that under the law as it is understood today, that is precisely what the federal district court is to do, and in so doing the court does not transgress its jurisdictional limits. To understand the evolving history as defendants see it, we must go back almost a century and a half to a Supreme Court case decided in 1850.

In *Wilson v. Sanford,* 51 U.S. (10 How.) 99 (1850), plaintiff filed his bill in the Circuit Court of the United States for the District of Louisiana. He alleged infringement of his patent, and sought an injunction prohibiting further use of his machine by defendants. He further alleged that he had earlier given a license to defendants permitting them to use his patented machine, but that the license was expressly conditioned on their making the specified payments. If the payments were not made as specified, the license provided that any rights granted thereunder would revert to the plaintiff patentee.

Plaintiff alleged that since the payments were not made as specified, the patent reverted to him, and he thus was suing for a declaration and for an injunction. The Supreme Court held that there was no jurisdiction under the Patent Act: "the injunction he asks for is to be the consequence of the decree of the court sanctioning the forfeiture." That is a contract dispute, not a patent law dispute, said the Court.

Wilson set the stage for *Luckett v. Delpark, Inc.*, 270 U.S. 496 (1926). In *Luckett*, plaintiff Luckett entered into a

nonexclusive license agreement with defendant Delpark, Inc., a license later made exclusive by a supplemental agreement. Allegedly, Delpark failed to pay Luckett royalties under the agreement, and Luckett brought suit in federal district court. In his complaint, among other contentions, Luckett asserted that Delpark was infringing his patents. Luckett requested, inter alia, that the license be canceled and that Delpark be enjoined from continuing to make and deliver the alleged infringing articles.[1] The district court dismissed Luckett's suit for lack of jurisdiction, and the Supreme Court affirmed. In reaching its decision, the Court reviewed at length the case law dealing with distinguishing cases that arise under the patent laws, thus conferring federal subject matter jurisdiction, from cases in which construction or enforcement of a contract or license is the issue, cases in which subject matter jurisdiction lies not in federal courts but in state courts. The Court summarized its understanding of the law thusly:

> [W]here a patentee complainant makes his suit one for recovery of royalties under a contract of license or assignment, or for damages for a breach of its covenants, or for a specific performance thereof, or asks the aid of the court in declaring a forfeiture of the license, or in restoring an unclouded title to the patent, he does not give the federal District Court jurisdiction of the cause as one arising under the patent laws. Nor may he confer it in such a case

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[1]Luckett had also assigned the title of a second patent to another defendant, and requested that the court order that defendant to formally reassign title back to Luckett. Id. Luckett did not, however, make any assertions of infringement by this defendant. *See id.*

> by adding to his bill an averment that after the forfeiture shall be declared, or the title to the patent shall be restored, he fears the defendant will infringe, and therefore asks for an injunction to prevent it. That was *Wilson v. Sandford* [sic]. If in that case the patentee complainant had based his action on his patent right and had sued for infringement, and by anticipation of a defense of the assignment had alleged a forfeiture by his own declaration without seeking aid of the court, jurisdiction under the patent laws would have attached, and he would have had to meet the claim by the defendant that forfeiture of the license or assignment and restoration of title could not be had except by a decree of a court, which, if sustained, would have defeated his prayer for an injunction on the merits. But when the patentee exercises his choice, and bases his action on the contract, and seeks remedies thereunder, *he may not give the case a double aspect, so to speak, and make it a patent case conditioned on his securing equitable relief as to the contract;*

Luckett, 270 U.S. at 510-11 (emphasis added).

More recently, this court, in *Air Products and Chemicals, Inc. v. Reichhold Chemicals,* Inc., 755 F.2d 1559 (Fed. Cir. 1985), relied heavily on the *ratio decidendi* expressed in *Luckett*, and cited extensively to the cases reviewed there. In *Air Products*, patentee Air Products granted a nonexclusive license to a party who later assigned its rights under the license to defendant Reichhold. *Id.* at 1560. The license agreement contained a termination clause, upon which Air Products allegedly relied in terminating Reichhold's license.

Id. Air Products alleged that, subsequent to the termination, Reichhold started infringing and continued to infringe Air Products' patent. *Id.* Air Products filed suit against Reichhold in federal district court, predicating jurisdiction on section 1338. *Id.* The district court read the complaint as primarily stating a claim sounding in contract, involving construction of the license. As a consequence the court dismissed the complaint for lack of subject matter jurisdiction.

On appeal, this court reviewed the state of the law as set forth in *Luckett.* The court then stated that "[a] court must review and analyze the plaintiff's pleadings, with special attention directed to the relief requested by the plaintiff, in making the determination as to whether a cause of action arises under the patent laws, or is a cause of action based upon a licensing agreement." *Id.* at 1562.

Its review of the pleadings led the court to conclude that the district court erred in dismissing the complaint. The court noted that Air Products averred that it had unilaterally terminated the license agreement as it was entitled to do; that as a result it was the owner of the patent in suit; and that Reichhold was infringing the patent which Air Products owned. The fact that the question of whether the termination was proper remained in the case, and that Air Products asked the trial court for a declaration of its full ownership of the patent, arguably undercut its position. The court nevertheless concluded that under the facts alleged it was not necessary for the patentee to first seek state-law forfeiture of the license before bringing its patent suit. The court thus distinguished earlier cases in which the patentee's prior license, presumptively still in effect, was held to bar federal jurisdiction.

Defendants, citing *Kunkel v. Topmaster Int'l, Inc.*, 906 F.2d 693, 15 USPQ2d 1367 (Fed. Cir. 1990), argue that the fact that a state-law question must be decided as a pre-condition to a patent law question does not work to automatically deny jurisdiction. In *Kunkel*, as in *Air Products*, this court was called upon to decide whether a claim for patent infringement, when coupled with claims seeking rescission of a license and other relief, states a claim within the purview of the federal court, or only within that of a state court. As in *Air Products*, the district court had dismissed Kunkel's suit for lack of subject matter jurisdiction. This court reversed, stating that the patentee had adequately pled ownership of a patent still in force, and infringement by defendants. The court noted that a federal court is not deprived of subject matter jurisdiction when a plaintiff bases his claim upon, and seeks remedies under, the patent laws, even though the complaint also anticipates a defense of license and thus puts the license question in issue. *Id.* at 696-97.

Defendants' reliance on *Air Products* and *Kunkel* is misplaced. To determine whether section 1338 jurisdiction attaches, the court must look to see whether the plaintiff has stated, in a well-pleaded complaint, a claim arising under the patent laws. *Vink v. Schijf*, 839 F.2d 676, 676-77, 5 USPQ2d 1728, 1730 (Fed. Cir. 1988). "The well pleaded complaint rule contemplates that the answer to whether an action arises under federal law "must be determined from what necessarily appears in the plaintiffs statement of his own claim in the bill or declaration, unaided by anything alleged in anticipation or avoidance of defenses which it is thought the defendant may interpose.'" *Id.* (quoting *Franchise Tax Bd. of Cal. v. Construction Laborers Vacation Trust for Southern Cal.*, 463 U.S. 1, 10 (1983)). Furthermore, we have stated that "the court must consider as a whole the substance of the claim in addition to the language of the complaint, and may also consider

jurisdictional facts outside the pleadings." *Air Products*, 755 F.2d at 1561, 225 USPQ at 122.

In this case, viewing the complaint in its entirety, we are left with the conclusion that plaintiffs suit is premised on a state-law based set of claims arising out of alleged breaches of the assignment agreements. Essentially the entire complaint is directed to causes of action based on various state-based claims. Moreover, plaintiff repeatedly refers to the need for rescission of the assignment agreements, as indicated by Paragraphs 73 and 74 of the complaint, which request rescission, and by Paragraph 87, in which plaintiff states that "in the event [the trial court] grants Plaintiffs' requested recision [sic] of the 1980 assignment agreement and other agreements, Plaintiffs will be entitled to recover for Defendants' continuing acts of patent infringement." These references point inexorably to the fact that the claim is one for a contract wrong. See, e.g., *Beghin-Say Int'l, Inc. v. Rasmussen*, 733 F.2d 1568, 1570-71,221 USPQ 1121, 1123 (Fed. Cir. 1984); *Schwarkopf Dev. Corp. v. Ti-Coating, Inc.*, 800 F.2d 240, 244: 231 USPQ 47, 50 (Fed. Cir. 1986).

The sole possible basis for finding federal jurisdiction under section 1338 is found in Paragraph 76 of the complaint. There, plaintiff states that, because "the agreements assigning the patents from Plaintiffs to Defendants has [sic] been null and void since at least 1980, said Defendants are and have been infringing upon Plaintiffs' patents as enumerated in paragraph 3 in direct violation of 35 U.W.C. [Sic] 271, et seq. since that date." However, this statement does not change the clear gravamen of the complaint. Moreover, as explained below, standing alone the statement fails to present a nonfrivolous allegation of ownership of the patents. Federal subject matter jurisdiction cannot attach based on frivolous allegations.

While *Wilson, Luckett, Air Products*, and *Kunkel* all involved license agreements, the present case involves an assignment. Licenses are considered as nothing more than a promise by the licensor not to sue the licensee, *Spindelfabrik Suessen-Schurr v. Schubert & Salzer*, 829 F.2d 1075, 1081, 4 USPQ2d 1044, 1048 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1063 (1988), and title to the patent does not change hands under a license agreement. However, assignments[2] pass title to the patentee's rights, with all the accompanying rights of ownership, from the patentee to the assignee. *See* Chisum, *Patents*, § 21 .0312][a]-[b], at 21-154 to 21-155 (1996); *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1030 (Fed. Cir.), *cert. denied*, -- U.S. --, 116 S. Ct. 274 (1995); *Green v. Le Clair*, 24 F.2d 74, 76-77 (7th Cir. 1928) (citing *Rude v. Wescott*, 130 U.S. 152, 163 (1889)).

Therefore, in the case of a license agreement having a rescission clause, a patentee in a suit for infringement can properly assert that it owned the patent at the time of infringement and that the defendant is infringing the patent. *See, e.g., Air Products*, 755 F.2d at 1560. In such cases, the plaintiff does not seek any specific equitable relief as a prerequisite to bringing the infringement claim. Id. Thus, the district court can treat defendant's claim of a license as a defense to the assertion that he is infringing, and the court can

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[2]An assignment of the patent can only be effected by conveying either the entire patent, an undivided part or share of the entire patent, or all rights under the patent in a specified geographical region of the United States. *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551, 35 USPQ2d 1065, 1074 (Fed. Cir. 1995).

decide that issue first as a matter of efficient management of the trial. As we stated in *Air Products*:

> We recognize that in cases where a license is plead as a defense, or where the license defense is anticipated in the complaint, that the most expeditious conduct of the trial would necessitate that the license issue be resolved first, for if the license issue is resolved in the defendant's favor the infringement issue is mooted .... A district court... is not precluded in patent suits from resolving non-patent questions, and the fact that a question of contract law must be decided prior to reaching the infringement question does not defeat federal subject matter jurisdiction.

Air Products, 755 F.2d at 1563, 225 USPQ at 124.

However, when the infringement suit involves an assignment, unless the assignment may be declared null and void by operation of law - either through a forfeiture provision present in the agreement or under a provision of applicable state law - an assignor suing for infringement must first affirmatively seek equitable relief from a court to rescind or cancel the assignment. Until ownership is restored in the assignor, there can be no act of infringement by the assignee. Federal question jurisdiction must. exist at the time the complaint is filed for a federal court to exercise authority over the case, *Keene Corp. v. United States*, 508 U.S. 200, 207 (1993), and without first receiving equitable relief that restores to the assignor title to the patent, any claim of ownership by the assignor will be unfounded. Further, because an action to rescind or cancel an assignment is a state-law based claim, *see Ausherman v. Stump*, 643 F.2d 715, 718 (10th Cir. 1981),

absent diversity jurisdiction it is to a state court that plaintiffs must look in seeking a forfeiture of the license. *Air Products*, 755 F.2d at 1564, 225 USPQ at 124; *see Wilson*, 51 U.S. (10 How.) at 102, *Luckett*, 270 U.S. at 510.

Defendants put heavy reliance on *Kunkel*, and argue that consequently *Wilson* and *Luckett* are no longer good law. It is true that *Kunkel* states that *Wilson* and *Luckett* were based on a distinction between law and equity, a distinction no longer applicable on account of the merger of law and equity courts by the Federal Rules of Civil Procedure of 1938. *Kunkel*, 906 F.2d at 696. A close reading of the two Supreme Court cases, however, indicates that the result reached in those cases was not dependent on the existence of a distinction between causes of action at law and those in equity. Indeed, as the quote above from *Luckett* demonstrates, the Court included both causes of action at law for damages and causes of action in equity for specific performance in the same sentence, and treated them alike in terms of the issue discussed. Whatever has been the consequence of the formal merger of law and equity in federal courts in terms of the manner of pleading and the power of a federal judge to grant both types of remedies, the distinction between law and equity has continued viability today, not the least in terms of theory underlying causes of action and availability of certain kinds of remedies. The merger was of courts and process, not underlying theories of claims and relief. The result in *Kunkel* is fully consistent with Supreme Court authority; defendant's use of it is not.

In this case, the assignment agreements specifically invoke Texas law, which governs the contractual rights and obligations of the parties. *Minco, Inc. v. Combustion Eng'g. Inc.*, 95 F.3d 1109, 1117 (Fed. Cir. 1996). In the state court complaint, plaintiff asserted that, due to defendants' breaches of the assignments, the assignments had become null and void,

thereby re-establishing ownership of the patents in plaintiff Arnold. In essence, plaintiff alleged that the defendants' actions had caused a forfeiture of the assignments. However, there is no forfeiture language in any of the agreements. Thus, the agreements do not recite conditions subsequent upon the occurrence of which forfeiture takes place.

As far as Texas law generally is concerned, we have found no authority to support the proposition that, following a breach of the assignments, the plaintiff could unilaterally declare the agreements null and void and thereby reobtain ownership of the patents that are covered by the assignments. Yet, that is precisely what plaintiff asserts in Paragraph 76 of the complaint. Texas case law indicates that a party must seek the aid of a court in order to obtain cancellation or rescission of an assignment, thus obtaining reassignment of title. *See, e.g., Humphrey v. Camelot Retirement Community*, 893 S.W.2d 55, 59 (Tex. App. 1994) (stating that a trial court may grant rescission, and that the decision to grant rescission lies within its sound discretion); *Owens v. Ridgeway*, 395 .S.W.2d 704, 705 (Tex. Civ. App. 1965) (noting that plaintiff brought suit to cancel and rescind certain assignment agreements). District courts plainly do not have patent law jurisdiction over these kinds of actions under section 1338. *See Schwarzkopf Dev. Corp. v. Ti-Coating. Inc.*, 800 F.2d 240, 244, 231 USPQ 47, 50 (Fed. Cir. 1986). Paragraph 76 of the state court complaint fails to present a nonfrivolous allegation of ownership of the patents at issue sufficient to confer jurisdiction on the district court pursuant to 28 U.S.C. § 1338.

This case is a classic example of the importance of precise phrasing in a legal document. And the phrasing in a complaint is the plaintiff's phrasing. As this court in *Air Products* so aptly reminded, "'the party who brings suit is master to decide what law he will rely upon,' *The Fair v.*

Kohler Die & Speciality Co., 228 U.S. 22, 25, (1912), [and] that '[j]urisdiction generally depends upon the case made and the relief demanded by the plaintiff.' *Healy v. Sea Gull Speciality Co.*, 237 U.S. 479, 480, (1915)." *Air Products*, 755 F.2d at 1562.

The anomalous pleading in this case of an inadequate patent claim in the midst of a contract-based law suit has resulted in a substantial waste of judicial and litigant resources. The remedy for that, however, is not an equally unfounded assumption of jurisdiction. Given the clear guidance of the Supreme Court and of this court's precedents, there can be no doubt that the case brought by Arnold did not "arise under the patent laws." *See Christianson v. Colt. Indus. Operating Corp.*, 486 U.S. 800 (1988). Since the well-pleaded claims in "Plaintiffs' Original Petition" filed in the district court of Harris County could not have been the basis for original jurisdiction in the federal district court, that court erred in permitting removal of the case from the state court and in assuming jurisdiction over the cause.

CONCLUSION

Accordingly, the judgment of the federal district court in favor of defendants is vacated, and the matter remanded to that court with instructions to return the case to the district court of Harris County.

VACATED AND REMANDED WITH INSTRUCTIONS

APPENDIX B

United States Court of Appeals for the Federal Circuit
95-1335, -1432

JIM ARNOLD CORPORATION, EARL E. ENNIS and JAMES F. ARNOLD,

Plaintiffs-Appellants,

v.

HYDROTECH SYSTEMS, INC.,

Defendant-Appellee,

and

ARKLA, INC., DIVERSIFIED ENERGIES, INC. and MINNEGASCO, INC.,

Defendants-Appellees,

and

BAKER HUGHES INCORPORATED and HUGHES TOOL COMPANY, INC.,

Defendants-Appellees,

and

MOHR CORP., HARVEY O. MOHR, H.O. MOHR RESEARCH & ENGINEERING, INC. and H.O. MOHR & ASSOCIATES, INC.,

Defendants-Appellees,

and

CAL DIVE INTERNATIONAL, INC.,

Defendant-Appellee,

and

ROBERT WITTMAN AND H.S.I. ACQUISITION, INC.,

Defendants-Appellees,

and

LEE R. LARKIN and ANDREWS & KURTH,

Defendants-Appellees.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLEES Lee R. Larkin and Andrews & Kurth, L.L.P., and a response thereto having been invited by the court and filed by the APPELLANTS, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on May 29, 1997.

Circuit Judge RICH did not participate in the vote.

FOR THE COURT,
JAN HORBALY, CLERK

Dated: May 22, 1997 By:_____

Alex Van Veen
Staff Law Clerk

cc: Joseph W. Walker
J. McEntee, G. Ballard, R. Hardie, R. Josephson

JIM ARNOLD CORP V HYDROTECH SYSTEMS, 95-1335, -1432
(DCT-93-3117)

Supreme Court, U.S.
FILED
SEP 19 1997
CLERK

(2)

No. 97-0331

In The

Supreme Court of the United States

October Term, 1996

BAKER HUGHES INCORPORATED, HUGHES TOOL COMPANY, INC. AND CALDIVE INTERNATIONAL, INC., et al.,

Petitioners,

vs.

JIM ARNOLD CORPORATION, EARL E. ENNIS, and JAMES F. ARNOLD,

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

RESPONDENTS' BRIEF IN OPPOSITION

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September 1997

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14 pp

PARTIES TO THE PROCEEDING

The petition accurately lists the parties to the proceeding.

Pursuant to Rule 29.6 of the Rules of this Court, Respondents Earl E. Ennis, and James F. Arnold are individuals and the Jim Arnold Corporation has no subsidiaries other than wholly owned subsidiaries.

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BRIEF IN OPPOSITION

Respondents, Jim Arnold Corporation, Earl E. Ennis, and James F. Arnold, file this brief in opposition and respectfully request the Court deny the petition for writ of certiorari.

PROCEDURAL HISTORY

This litigation stems from Petitioners' wrongful activity, inter alia: fraud, active misrepresentation and concealment of their manufacture and sale of millions of dollars worth of subsea mechanical devices which were covered by patents issued to Respondent James F. Arnold. The Petitioners breached their agreement, failed to account for such sales, misrepresented that no sales had been made, and defrauded Respondents of their royalty payments due under various agreements involving the assignment of patents for these devices.

Defendant-Petitioners removed the litigation from state court to the United States District Court for the Southern District Of Texas, Cause No. 93-3117. On an appeal from a summary judgment motion, the Federal Circuit remanded the case to state court because Petitioners were unable to demonstrate the existence of federal jurisdiction stating 'there can be no doubt that the case brought by Arnold did not "arise under the patent laws".' (App.A, p. A26).

On March 21, 1997, the Federal Circuit decided to VACATE and REMAND after having considered the issues over a one year period (following an oral hearing

on February 7, 1996 and Order for supplemental briefing issued on February 12, 1996.) The Court's opinion was published as *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.3d 1567 (Fed.Cir. 1997). The Federal Circuit also DENIED and DECLINED Petitioner's Petition for Rehearing and Suggestion for Rehearing In Banc on May 22, 1997.

STATEMENT OF THE CASE

As the removing party, the Petitioners failed to meet their burden of showing the existence of federal subject matter jurisdiction over the controversy. Federal subject matter jurisdiction is governed by what has been presented on the face of Respondents' complaint under the "well-pleaded complaint rule". The petition clearly states that Plaintiff Arnold assigned all right, title and interest in and to such innovation or improvements on his inventions and patents. (A541) When seeking summary judgment, Petitioners previously asserted: "all of Plaintiffs' claims arise out of Hughes' alleged breach of the 1980 Agreement." (A562, A563) The Petitioners' own contentions characterize this as a suit for breach of contract agreement and Petitioners should not be allowed to now contradict their previous position. Claims arising out of contract breach and fraud have proper jurisdiction in state court.

REASONS FOR DENYING THE WRIT

I. Contract disputes about patent assignments do not act to create federal jurisdiction

The "well-pleaded complaint rule" governs subject matter jurisdiction for removal purposes by confining the determination of jurisdiction to what is presented on the face of the plaintiffs' complaint. *Caterpillar, Inc. v. Williams*, 482 U.S. 386, 398-399 (1987). The Federal Circuit stated, "To invoke the jurisdiction of a federal court under § 1338, it is necessary that plaintiff allege facts that demonstrate that he, and not the defendant, owns the patent rights on which the infringement suit is premised" (App.A, p. A10) *citing* 28 U.S.C. § 1338. The Federal Circuit determined that Petitioners' complaint did not raise an adequate patent claim in the midst of a contract based lawsuit to create federal jurisdiction. (App.A, p. A26).

Kunkel v. Topmaster Inter., Inc., 906 F.2d 693 (Fed.Cir. 1990) makes it clear that a Plaintiff must assert a claim of current ownership of a patent to obtain federal subject matter jurisdiction under the patent laws. Plaintiffs made no claim of current ownership in their original complaint. On the contrary, PLAINTIFFS' ORIGINAL PETITION states that "Plaintiff Arnold assigned all right, title and interest in and to such innovation or improvements on his inventions and patents" (A541). Petitioners recognize that a plain reading of the PLAINTIFFS' ORIGINAL PETITION shows that Arnold assigned his patent rights in 1980. (A562, A563). Petitioners have failed to demonstrate that plaintiffs plead current ownership of patents, and thus a cause of action under patent law, and have

therefore failed to meet their burden in establishing federal jurisdiction.

Petitioners mis-apply Texas law to contend that recorded patent assignment agreements could be unilaterally rescinded without judicial intervention. Petitioners incorrectly argue that Respondents' pleading reestablished current patent ownership back to the inventor, Arnold, sufficient to invoke federal jurisdiction under *Kunkel*.

To the contrary, Respondents pleading merely sought a judicial determination to have the various assignment agreements rescinded and reassigned. (A555, A526, A523, A522) The Federal Circuit understood from the original complaint that Respondents were not claiming current ownership of the patents as required by 28 U.S.C. § 1338 (App.A, p. A10) and, therefore, held that federal subject matter jurisdiction did not exist.

II. Petitioners create an illusion concerning conflict in application of Texas law.

Texas law does not recognize the type of unilateral rescission of patent assignments that Petitioner contends could allow Respondents to regain title to the patents without aid of a court. A party cannot unilaterally terminate patent assignment agreements in Texas by proclamation 'the contract is rescinded' ipse dixit.

The Federal Circuit concluded that plaintiff's suit is premised on a state-law based set of claims arising out of alleged breaches of the assignment agreements and that the petition repeatedly refers to the need by the trial

court to rescind the assignment agreement. (App.A, p. A21) The Court stated "As far as Texas law generally is concerned, we have found no authority to support the proposition that, following a breach of the assignments, the plaintiff could unilaterally declare the agreements null and void and thereby reobtain ownership of the patents that are covered by the assignments" (App.A, p. A25)

In *Comer v. Byars*, 89 S.W. 80 (Tex.Civ.App. 1905) error ref'd., a Texas court reviewed the compliance of parties under a patent assignment agreement and made a judicial determination concerning whether a party was entitled to rescission and cancellation of the conveyance as a remedy for the alleged breach. Texas case law thus deals with rescission of patent assignments as a remedy available through judicial determination – not as a remedy one of the litigants could have unilaterally proclaimed.

In Texas, a trial court *may* grant unilateral rescission of a contract if a party shows that a breach had occurred in a material part of the contract. *Humphrey v. Camelot Retirement Community*, 893 S.W.2d 55, 59 (Tex.App. – Corpus Christi 1994); citing: *Costley v. State Farm Fire & Casualty Co.*, 894 S.W.2d 380 (Tex.App. – Amarillo 1990, writ denied); *Ennis v. Interstate Distribs., Inc.*, 598 S.W.2d 903, 906 (Tex.App. – Dallas 1980, no writ); see also *Allen v. Allen*, 751 S.W.2d 567, 575 (Tex.App. – Houston [14th Dist.] 1988, writ denied.) However, the decision regarding granting of rescission is a judicial remedy which lies within the trial court's sound discretion. *Id.* at 59.

Unilateral rescission for breach of contract is not generally available in Texas absent the agreement of the

parties or expressed provisions of the contract and the aid of the court must be obtained when terminating a contract in Texas "(c)onditions which may result in forfeitures or in the termination of contracts are not favored by the law and will not be decreed unless the contract contains clear and specific provisions to that effect." *Dobson v. Dobson*, 594 S.W.2d 177, 180 (Tex.Civ.App. – Houston [1st Dist.] 1980); citing: *Hearne v. Bradshaw*, 312 S.W.2d 948 (Tex. 1958).

Petitioners provide no Texas case law as authority to support their contention that a party may unilaterally rescind a patent assignment without judicial intervention. In support of their argument, Petitioners cite to *Allen v. Allen*, 751 S.W.2d 567, 573, 575 (Tex.App. – Houston [14th Dist.] 1988, writ denied)(dispute concerning ownership of mineral right royalty interests following a divorce settlement – where the court held that there was insufficient evidence of unilateral rescission); *Cundiff v. McLean & Miller*, 40 Tex. 368, 371 (Tex. 1874) (a promissory note collection dispute concerning credit for payments made); *Ross v. McClelland*, 281 S.W.2d 773, 775 (Tex.Civ.App. – Fort Worth 1955, writ ref'd, n.r.e.) (Action for recovery of money deposited after sellers breached contract for sale of cattle).

Petitioners do not demonstrate how this litigation falls within the parameters and factual boundaries of the case law they cite. Petitioners' argument concerning unilateral rescission fails because the parties neither acted to restore each other to their former position nor acted to restore the benefits received under the assignment agreements. *Allen v. Allen*, 751 S.W.2d at 573.

III. Petitioners' position on appeal is contrary to their previous arguments.

Petitioners now contend that unilateral rescission of assignment is a basis of patent ownership sufficient to create federal jurisdiction. However, Petitioners previously took contrary positions in the litigation, contending that "Plaintiffs seek rescission . . . " (A555) and that plaintiffs' claims for patent infringement were without merit because defendants could not have infringed patents that were expressly assigned to them. (A553) It is clear from the Petitioners' own argument that Respondents did not unilaterally rescind the contract but instead sought an equitable determination of rescission from the court.

Furthermore, Petitioners now contend that federal jurisdiction exists based on patent disputes, in contrast to Petitioners' previous assertions in their summary judgment brief that all of plaintiffs' claims arise out of alleged breach of contract (A562, A563), rather than a patent dispute. (A553)

Respondents object to Petitioners bringing new argument on appeal which contradicts their previous position in the litigation.

IV. Petitioners' argument would disrupt uniformity of federal subject matter jurisdiction

Congress conferred exclusive jurisdiction of all patent appeals on the Court of Appeals for the Federal Circuit. 28 U.S.C. § 1295(a)(1). By design, the jurisdiction of federal courts is limited and they have no inherent

subject matter jurisdiction. *Oliver v. Trunkline Gas Co.*, 789 F.2d 341, 343 (5th Cir. 1986). An initial presumption arises that federal courts lack subject matter jurisdiction to resolve a particular suit. *Owen Equip. & Erection Co. v. Kroger*, 437 U.S. 365, 374 (1978).

In remanding, the Federal Circuit determined that federal jurisdiction does not exist in this case and the litigation belongs in state court. (App.A, p. A21, p. A26) When a suit is filed seeking a declaration of ownership of a patent it does not fall within the patent laws. *Vink v. Hendrikus Johannes Schijf Rolkan N.V.*, 839 F.2d 676, 678 (Fed.Cir. 1988) citing: *Luckett v. Delpark, Inc.*, 46 S.Ct. 397, 399, 270 U.S. 496 (1926). Petitioners' argument and misapplication of state law regarding unilateral rescission of patent assignments needlessly confuses and disrupts the Federal Circuit's requirement of patent ownership as a basis for federal jurisdiction.

The Federal Circuit's decision is consistent with prior decisions requiring that a plaintiff have current patent ownership to maintain an action for infringement. *GAIA Technologies v. Reconversion Tech, Inc.*, 93 F.3d 774 (Fed.Cir. 1996). Here, Respondents have not claimed current ownership of patent rights as required to invoke federal jurisdiction under *Kunkel v. Topmaster, Intern., Inc.*, 906 F.2d 693, 695 (Fed.Cir. 1990); *Arachnid, Inc. v. Merit Industries, Inc.*, 939 F.2d 1574 (Fed.Cir. 1991).

The Petitioners erroneously cite to *Vink* to bolster their argument in support of federal jurisdiction. In contrast, the *Vink* complaint alleged that plaintiff "owned the patent" and therefore on its face met the first prong of

current patent ownership under the *Kunkel* test. *Vink* 839 F.2d at 678.

Petitioners' argument would act to reverse the presumption against federal subject matter jurisdiction. Under Petitioners' proposal, federal courts would be required to look beyond matters presented in a complaint and seek out and consider all possible scenarios before denial of federal subject matter jurisdiction.

Furthermore, if Petitioners' argument were valid, then inventors (without either a judicial determination or the agreement of assignees) could unilaterally declare a patent assignment rescinded and undermine the purpose of filing patent assignments with the PTO to provide notice to the world of ownership pursuant to 35 U.S.C. § 261.

CONCLUSION

For the foregoing reasons, the writ of certiorari should be denied

DATED this 19th day of September, 1997.

Respectfully Submitted,
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